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Sisson, Francis Hinckley

Guarding the nation's
credit

New York

1917

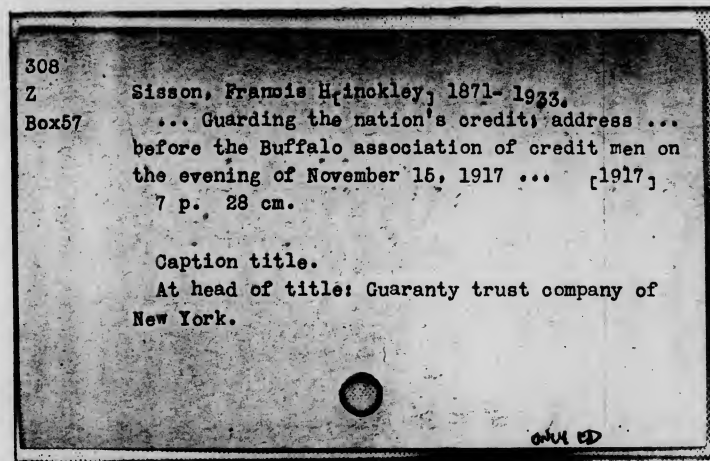
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Guaranty Trust Company of New York

140 Broadway, New York

Guarding the Nation's Credit

ADDRESS

By Francis H. Sisson, Vice-President, Guaranty Trust Company of New York, before the Buffalo Association of Credit Men, on the Evening of November 15, 1917.

ON the evening which brought the Second Liberty Loan to a triumphant conclusion, the country was thrilled by the news that we had sent the first shot across "No Man's Land" into the enemy's lines. There was a fitting coincidence in those momentous events and a significance far deeper than mere concurrence. Their simultaneity bespoke the unity of the American people, the coördination of our mighty forces, the synchronism of our billions and our bullets. That shot presaged the doom of tyranny, and the eventual freedom of all mankind.

The roar of that French seventy-five, as a khaki-clad American sergeant jerked the lanyard, was an intensified echo of the shot heard 'round the world when, a hundred and forty-two years ago, an embattled farmer pulled the trigger of his flint-lock musket at Lexington. Its reverberations resounded across the ocean and stirred us to the consciousness of the fact that we are no longer just preparing for war—that we are actually in it.

As I utter these words tonight, somewhere in France our steel-helmeted soldiers are silently crawling over the top and cautiously stealing through "No Man's Land" to do their grim, heroic work in the dark; the preparatory work for the day when they will charge through a veritable hell-on-earth to assault the last stronghold of Democracy's worst enemy—Prussian autocracy.

There isn't one of us with true American blood in his veins who does not envy those men. But if we are denied the greatest privilege of our citizenship, we are granted one of almost equal importance. While we are not in the ranks of the fighting forces, we *are* enrolled in the supporting army at home.

Behind the Lines

Upon us falls the duty of clothing and rationing our soldiers. We must fill their canteens and load their guns. They are offering the supreme sacrifice on the altar of devotion to our country. Their safety and their success depend on us. We are under moral obligation as individuals to do all in our power to make their triumph certain. We must resolve to live simply, to avoid waste, and to develop our productivity to its highest efficiency.

To us who, perforce, must remain three thousand miles behind the battlefield, also will come the summons to go "over the top"—in saving, serving and sacrificing. We shall not know the thrill of the "great adventure" which the men in the trenches experience, but we shall learn the joy and the satisfaction of constructive achievement—of doing *our* bit.

Finance

The seven months of our participation in the war has made clear to us that financing our share in Democracy's battle for life is the biggest monetary task which the Ameri-

can people have ever undertaken. But victory will be worth the price, dear as it may be. And we have pledged ourselves to the successful accomplishment of this great project; we will see it through, if need be, to the last dollar.

We do not know our financial strength, for it has never been tested to its limit. But we, and all the world, will learn to respect its power before this war is over.

Evidence of Our Strength

Ten years ago the raising of two billions of dollars for the Government within a short time would have strained our nationally unorganized banking system. We have raised seven billion dollars for the Government in less than six months. Yet, thanks to the efficient mobilization of our credit, we find that our resources are unimpaired, and that they are equal to future demands.

Approximately half of our gold accumulation is now garnered in the Federal Reserve System. The combined resources of all the banks and trust companies of the United States exceed thirty-seven billion dollars. This vast amount is twice as large as the total resources of all the financial institutions of the country ten years ago. It represents twelve billion dollars more than the resources of all our banks four years ago. There is no other nation so solvent as ours; there is no government with as sound security, no nation so certain to pay its debts as the United States.

Under the present banking laws it is possible for the banks of the New York district, alone, to expand their lending capacity by no less an amount than eight billion dollars—one billion more than the total of the two Liberty Loans. While such an expansion is neither necessary nor desirable, the possibility is evidence of a tremendous latent power, and offers assurance that the Federal banking laws are adequate to safeguard the country's financial system. A currency famine today is an impossibility.

Assets of Our War Bill

While the bill for our part of the war, which may be twenty billion dollars for the first year, may stagger the imagination, it will not impose an overwhelming burden upon us. We should remember, too, that no inconsiderable part of this huge sum of money will not be consumed in the European conflagration. A great deal of it is capital investment, to promote such projects, for instance, as the upbuilding of a great merchant marine. In addition, seven of the twenty billion dollars will be loaned to our Allies.

These loans represent investments, which will yield an equitable return; they are, in reality, credits, which stand in the name of the borrower for a brief time and then are transferred to this Government. The shifting of credits is largely a matter of bookkeeping, and very little actual cash is involved. Agents of the Allied Governments are using these funds for the purpose of paying contractors for supplies purchased in this country. These contractors in turn redeposit the checks or instruments of credit with the banks, using the proceeds for buying more raw material and for the payment of wages. The British War Mission, alone, is reported to be spending at the rate of one and a half billion dollars a year in the United States. So the loans to the Allies constitute one of the important factors in insuring the continuance of our unprecedented prosperity. Furthermore, it is absolutely imperative for us to maintain the Allies in as strong an economic condition as possible, for they form our first line of defense.

Prepare for a Long War

As much as we may desire peace, we must realize fully that Germany will not now concede the terms unquestionably necessary to an honorable, permanent settlement, and the Allies are standing firmly behind our President for the accomplishment of that

great achievement. Consequently, we must make ample preparations for a prolonged war. Our business men and financiers, as well as the people generally, must adjust their plans to the basis of at least a full year, and perhaps two years, more of the conflict.

Considerable study should be devoted to the financial arrangements which will have to be made by the large taxpayers of the country in meeting the imposts of the new Revenue Law. Already it has been definitely ascertained that practically all of the big taxpayers will be obliged to meet their dues by borrowing. The larger banks are making provisions to accommodate these prospective borrowers to an unusual degree, and small banks throughout the country should expect heavier demands than have occurred in any previous tax period.

Many corporations will pay taxes running far into millions of dollars and with this money coming out of the current lending funds of the banks rather than out of any special reservoirs, it is to be expected that some slight strain may be experienced. Some of the large business interests now are wisely setting aside money with which to meet their tax obligations, but others are depending wholly on borrowings from their banks.

The necessity for frequent Government loans, and the almost continuous sale of Treasury certificates of indebtedness, will leave only comparatively brief periods of time for the accumulation of tax funds. Therefore, the utmost caution must be observed in keeping finances steady to meet the new tax situation.

Thrift Our Shibboleth

The best service which bankers can render the people in this respect is to take a leading part in encouraging a conservative, economical habit of thought and action, both as to public and private finances. They should

scrutinize every application for loans as they never have in the past. At this critical time private, municipal, and state financing must not be permitted to compete with the monetary needs of the Federal Government. The responsibility for preventing such unpatriotic competition rests in no small degree with the financiers. The bankers throughout the country, and by bankers I mean not merely the heads of banking institutions but also those who represent them in various capacities, can do much toward directing operations along safe lines and in preventing over-expansion.

The Depression of Securities

The criticism which has been made of bankers of New York in regard to the falling stock market certainly is not just in view of the facts, as revealed by investigation.

It is not within the power of the bankers of New York to change the economic situation which has been brought about by the war, to which the fall in prices of securities is almost entirely due. The experience we are having in the security market in this country is exactly parallel to that through which England and France have passed and are now passing; and the fall of security values here has not been relatively as great as in other countries.

There are various elements in the situation which contribute to this fact. In the first place, the absorption of public funds in government loans necessarily makes it impossible for private offerings to compete. Not only has it been impossible to care for the normal liquidation of securities but the unusual liquidation precipitated by the constriction of the borrowing market has had the inevitable result of falling prices.

The Causes

The simple fact of the situation is that there is no purchasing power in the market to stay the downward trend. That lack is caused,

first, by governmental competition; second, by private needs; and third, by uncertainty as to future developments. These causes are all entirely outside the possibility of any individual, or of any group, to control.

The bankers of New York have done their utmost to stay this tide, but without great success, for the very simple reason that neither they nor any other group can stay the operation of economic laws or alter the effects arising from causes which they cannot control. They have done all in their power to help maintain and stabilize values; and their splendid work in floating the second Liberty Loan certainly speaks for itself.

Business

The war has been a stimulus to business generally. It has forced upon us the gigantic task of doing ten billion dollars' worth of war business in a single year, in addition to supplying the normal needs and demands of our more than one hundred million people.

And in this great development of our heretofore latent productive capacity lies one of our strongest sinews of war, for it is on the continuance of our industries and their elasticity that the state itself depends for existence. The part business may play in the winning of the war is incalculable. On our business men falls to a large extent the efficient munitioning of our army and of our naval forces.

From now on we can not have "Business As Usual." Business must be far better than usual. The business of the hour is war and its demands must first be met. Business efficiency must be tremendously increased to meet the pressing demands placed upon it, which will be added to day by day. This imposes upon every American manufacturer and business man, large or small, the absolute necessity for husbanding his resources with the utmost severity.

The Buying Problem

Perhaps the most immediate problem confronting the American manufacturer and

business man, aside from that of increased efficiency, is buying. There is every reason to avoid laying in enormous amounts of stock at the present. By our entrance into the conflict there does not now exist an opportunity for the upheaval of prices in the United States, or throughout the world. And the question of buying will become increasingly difficult as our army is enlarged. Already there is a scarcity of leather, wool and various other materials used in the equipment of a modern army, although we have not yet put a million men in the field—and, we may have to raise a fighting force of five million, or more, before German autocracy strikes its colors to world democracy.

In this connection it may be well to call attention to the fact that banks are today forced to lend their customers a good deal more than in normal times because the value of stocks of merchandise has increased unprecedentedly. When peace comes, the reaction may be acute; a sudden peace might precipitate a violent depression of war-inflated values of merchandise. Manufacturers and merchants who have on hand goods which were produced under factitious conditions as regards cost of labor and material and for which there may be little demand, even if sold at a loss, may suffer.

Acceptances

We must, therefore, safeguard our commercial future as well as possible. The more general use of acceptances will tend to accomplish that end by materially developing our credit resources on a sane and safe basis. Trade acceptances will help to check overbuying; they will minimize the burden of bad debts and of slow collections; and they will make the buyer who uses them a preferred customer.

Necessity for Cooperation

It is obligatory for us to join in concerted commercial action, not only to defeat Germany in the "No Man's Land" of the war,

but in order to meet Germany after the war on equal terms on Every Man's Ground of international industrial competition. For the enemy, even while in the throes of the terrible war he has forced upon all humanity, is preparing as carefully for a future worldwide trade campaign as he did for the military onslaught he launched on an unsuspecting world in August, 1914.

At present German over-sea commerce is reduced practically to nothing. The German exporters, however, are endeavoring to keep in touch with their lost markets and they are doing everything possible under existing circumstances to maintain good will in those markets. It is obvious, therefore, that whatever may be the outcome of the war, Germany is going to make as active a canvass for export trade as its resources and financial condition at the cessation of hostilities will allow.

The regulation of international trade which has been found necessary since our entrance into the European struggle will have to be continued long after the war ceases. Already a few prudent American exporters are urging the authorities in Washington to appoint a Federal board equipped with power to prepare definite plans for the maintenance of our commercial and financial leadership.

The Reconstruction Period

A billion dollars a year for five years will be needed for building purposes in the United States. The reconstruction of Europe, of course, will requisition far more capital. France, alone, is negotiating for an expenditure here in excess of one hundred and fifty million dollars to rehabilitate her devastated cities. America, in fact, is the great reservoir from which all things must be drawn.

Let us consider for a moment what the return of peace will mean "to the greatest, the most virile, the most energetic, the most

courageous and the most resourceful industrial nation of the world." It means that in the work of reconstruction we shall exert a vastly more important influence than in the work of destruction. If civilization is to survive, the great industrial machinery which we are now coördinating as never before must develop an ennobled efficiency, as it were, and become a greater producer than ever.

Labor

An equal share of the responsibility for achieving this titanic revolution in our industrial life falls upon the laboring class. Without labor's patriotic and whole-hearted response to the call to duty we shall meet defeat, for this war is being fought in the factories quite as much as upon the battle fields.

The scarcity of labor is baffling the United States in its effort to push its martial programme. The lack of workers in shipyards, for instance, constitutes a dangerous menace to the successful prosecution of our part in the war. So, Uncle Sam today finds himself, as regards labor, in the predicament of a very tall man trying to sleep under short bedclothes. If he covers his shoulders he exposes his feet.

Possible Remedies

The situation can be mitigated to an appreciable extent by stopping all non-essential work in the country. In this respect we may have to learn a lesson from the French. In Paris not a private house or other building, it is reported, has been painted in the last three years, as the painters are being employed in the army or in the war trades. Sooner or later, and the sooner the better, we must adjust our activities to such a Spartan-like, utilitarian basis.

Employes and employers must determine to forget everything but the national welfare. We must pull together for highest tensioned power. Otherwise, it may be

necessary for the President to appoint a Labor Administrator as he has appointed Food and Coal Administrators. Multifarious policies of labor control will handicap the country in dealing with labor. A single policy, a one-man contact with all the unions, may prove the answer to labor's growing, and, in the aggregate, unmeetable, demands.

Looking Ahead

Never in the history of this country has earning capacity been greater than it is now. Unemployment does not exist; labor is at a high premium. Skilled labor is receiving the rewards which a decade ago were considered adequate emoluments for the professions. Unskilled labor is commanding wages which formerly were paid to first class mechanics. And this condition doubtless will prevail until the end of the war. But it behooves the wage earners to look into the future and to prepare for the inevitable readjustments peace will bring.

Transportation

If the United States and the Allies are to win this war, and win it they must, one of the most vital factors in achieving that goal will unquestionably be adequate transportation facilities. Through the many dramatic, and often tragic features of ocean shipping we have long appreciated the importance of the Government's huge ship-building programme. But, because of the less spectacular character of the railway situation, the country-at-large has failed to understand the grave condition of rail transportation.

It is imperative that relief be furnished to the railroads if they are to stand up under the strain which the war has put upon them. Unless proper assistance is forthcoming soon we may build countless ships, but build them in vain, for they would be worthless without cargoes and fuel, which the railroads must carry to them. And, as a

matter of fact, we can not even build the ships unless the necessary materials are transported to the shipyards by rail.

Through patriotic coöperation on the part of the railroad managements the 262,000 miles of rails in the United States have been operated since last April practically as a single system. This splendid team-work has enabled the railroads to provide about twenty-five per cent. increase in all kinds of service with a scant three per cent. increase in equipment.

Predicament of the Railroads

But expenditures for maintenance are constantly multiplying by reason of the soaring costs of labor and material. Thus, the inability of the railroads to increase expenditures in proportion to increased costs means that they are in reality consuming part of their capital at a time when an expansion of their plants is urgently demanded. Summed up, the situation is simply this: the present prices of iron, steel, copper, coal, and other materials are about one hundred per cent. higher than the five-year average, while transportation prices have remained stationary.

This state of affairs prevents the prompt enlargement of our transportation system, which is a most pressing need, for the railroads have reached the limit in efficiency under existing circumstances. Consequently, more economy and better results are impossible.

Every day that this condition prevails causes additional loss not only to the railroads, but also to shippers, to business, and to the public. Furthermore, indirect ownership of the railroads is in the hands of twelve million savings bank depositors and forty million life insurance policyholders. Plainly, therefore, the principal creditors of the roads are the people of the country whose savings are invested in railway securities.

How vital in war times is the transportation of soldiers and supplies needs no ex-

position here. We are all alive to the paramount importance of this military necessity.

But will it help win the war to permit railway stocks to fall one billion dollars in value in six months? Will it help win the war to allow railroad bonds to decline one billion dollars in ten months, as they have since the first of January? Will it help win the war to make it impossible for the railroads to borrow money for repairs and replacement of worn-out, unsafe equipment? Will it help win the war to restrict railway rates beyond all reasonable limits, when more than a billion dollars a year in new capital must be put into the country's transportation system in order to meet its pressing needs?

Every Man's Ground

The closer relationship which the war has established between business and the Government is rapidly overcoming the baneful influence of past persecution of our commercial interests. "It is demonstrating," to quote a member of the Cabinet, "how very much better business might have been prepared to do its part if it had been less subject to attack in recent years."

This cooperation is one of the greatest elements of strength in the generation of changes which have occurred in the United States during the last seven months. It represents a new era in our national existence;

a permanent advance. It will be of invaluable service and incalculable power when we shall have crossed "No Man's Land" of the war and entered upon Every Man's Ground of internationalism.

The War's Greatest Mission

In prehistoric days individuals fought each other until they united into tribes, or clans, which, in turn, warred upon each other until they were forced to confederate into states for mutual protection. Then the little states fought among themselves until they had to weld themselves into nations. And if the present war does not bring about an international federation it will not have accomplished its greatest mission.

Our Glorious Opportunity

The United States must be ready for that most momentous of all world changes, which will mean world leadership for this nation, with its resources of men, material and money such as no people from the beginning of time ever possessed. The prospect is so brilliant as fairly to dazzle the imagination. We must rise to the great opportunity. But its realization will come only after we have successfully fought our way to victory. And its materialization imposes upon us the grave responsibility of discharging our duties to all mankind with thoroughness and honor.

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